

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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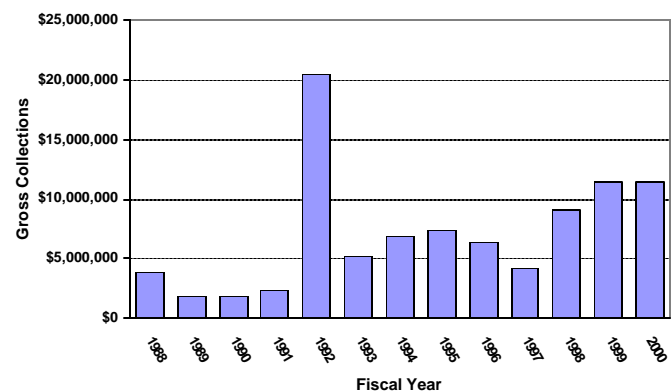
New Money. Like the little girl in the rain slicker on the Morton salt box, Idahoan's are finding that when it rains, it pours. Idaho is currently experiencing a surplus that has grown in each month of this fiscal year. Part of this monetary good fortune reflects an unanticipated economic spurt in 2000. The nonfarm payrolls surged 3.6% last year. Bonus payments and realized capital gains also contributed to state coffers. General Fund revenues jumped over 12% from fiscal year 1999 to fiscal year 2000. The General Fund is expected to expand another 9.8% in this fiscal year. While part of this increase reflects the health of the Individual Income, Corporate Income, and Sales Taxes, some of it will come from other tax categories. This is especially true this fiscal year due to tax law changes that have significantly increased these categories' contributions to the General Fund. For example, Product Tax collections are forecast to rise 29.4% and revenue from Miscellaneous sources should be up 37.3%. These changes are discussed below.

Cigarette Tax. The passage of Senate Bill 1331 during the 2000 Legislative Session made fundamental changes to the financing of the Water Pollution Control Fund. This fund traditionally received moneys directly from the Cigarette, Tobacco, and Estate and Transfer taxes. These moneys now go to the General Fund. Beginning July 1, 2000, the Water Pollution Fund's only direct source of money is an annual transfer of \$4.8 million from the state sales tax. This move caused increased collections into the General Fund from two components of the Product Taxes. First, we look at the Cigarette Tax. This tax is 28 cents per package of 20 cigarettes. Five cents per package of cigarettes are distributed to the Public School Income Fund and five cents are earmarked for County Juvenile Probation Services. Previously, 6.7% of the remaining 18 cents was distributed to the Water Pollution Control Fund. This share, about \$1.5 million in fiscal year 2001, is added to the General Fund portion. This explains the jump in the General Fund portion despite the expected decline in cigarette consumption. After this year's spike, the General Fund share should start to drop off in fiscal year 2002.

Tobacco Tax. It is a common misconception that Idaho Tobacco and Cigarette taxes are the same thing. They are not. Cigarettes are taxed on volume. Tobacco products are taxed on value. Idaho levies a 35% tax on the wholesale price of tobacco products. As a result of last year's law change, this entire amount—net of refunds—is remitted to the General Fund. This marks the first time since Tobacco Tax's inception in 1972 that the General Fund receives moneys from this source. Prior to this, all these moneys went to the Water Pollution Control Fund. This adds another \$4.1 million to the General Fund in fiscal year 2001 and \$4.3 million in fiscal year 2002. An additional 5% of the wholesale price is also collected. But this amount goes to other funds. Half of it is earmarked for the Public School Income Fund, with \$250,000 appropriated to Idaho State Police. The other half of the 5% collected is distributed to the Department of Juvenile Corrections for county juvenile probation services.

Estate and Transfer Tax. One reason for the jump in miscellaneous collections is the change in the Estate and Transfer Tax distribution. Idaho's Estate Tax was enacted in March 1929. The Idaho Estate and Transfer tax is known as a "Pick Up" Tax. The federal code allows a decedent's estate to take a credit against state estate taxes paid, up to certain limits, based on the total size of the estate. The amount of Idaho Estate and Transfer Tax due is equal to this credit. This is an important, but often overlooked, feature of this tax. Specifically, abolishing the Idaho Estate and Transfer Tax would not reduce an Idahoan's total estate tax bill. Instead of staying home, the Idaho portion of the total tax would be deposited to the federal treasury. Originally, 90% of its proceeds went to the General Fund and 10% went to the county of probate. This changed in 1970 when the General Fund portion was redirected to the Water Pollution Control Fund. As the chart shows, collections tend to be volatile. Gross collections have ranged from over \$20 million in fiscal year 1992 to less than \$2 million in fiscal year 1990. Partly because of these wide revenue swings, it was determined that the Water Pollution Control Fund should be reduced in scope and funded from the state sales tax. Beginning July 2000, the Water Pollution Control Fund portion reverted directly to the General Fund. But this explains just a portion of the increase. In the last two years, gross Estate and Transfer Tax collections have averaged about \$11.5 million. However, six months into the current fiscal year, gross revenues (\$35 million) are more than three times this average, and above the forecasted amount of \$30.3 million. This windfall results from taxes on a few large estates, so this pace is not expected to continue through the rest of the year.

Idaho Estate and Transfer Tax



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General Fund Update

As of December 31, 2000

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY01 Executive Estimate ³	DFM Predicted to Date	Actual Accrued To Date
Individual Income Tax	1024.2	454.1	450.5
Corporate Income Tax	170.0	68.0	80.7
Sales Tax	658.0	337.0	334.1
Product Taxes ¹	20.7	10.7	10.7
Miscellaneous	127.0	75.0	81.6
TOTAL GENERAL FUND²	1999.8	944.8	957.6

¹ Product Taxes include beer, wine, liquor, and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2001

General Fund revenue monitoring is based on the new FY 2001 Executive Revenue Forecast beginning with this issue of the *IDAHO OUTLOOK*. The significant changes from the previous (August 2000) revenue forecast are in the Corporate Income Tax (up almost \$34 million) and the Miscellaneous Revenue category (up slightly over \$20 million). The Product Tax forecast is unchanged, and the Individual Income Tax and Sales Tax forecasts are only slightly changed. The overall FY 2001 General Fund revenue forecast has been increased by just under \$49 million.

One month into the new Executive Revenue Forecast General Fund collections are \$12.8 million above expectations. This is due to factors that reflect a combination of one-time receipts (Miscellaneous revenues) and unusual timing (Corporate Income Tax). Individual Income Tax and Sales Tax collections were a combined \$6.5 million lower than expected in December.

Individual Income tax collections in December were \$3.6 million lower than expected. Filing collections accounted for the bulk of this weakness, with \$2.9 million less than predicted. Withholding collections were also weak in December, coming in \$0.9 million lower than expected. Refund payments were slightly lower than expected.

The Corporate Income tax was \$12.7 million higher than expected in December. This is entirely due to higher-than-expected estimated payments (up \$18.8 million). This strength was partially offset by weaker-than-expected filing payments (down \$3.8 million) and higher-than-expected refunds (up \$2.4 million). The unusually large estimated payments in December are believed to be due to an acceleration of payments that would otherwise occur later in this fiscal year.

Sales tax collections were \$2.9 million lower than expected in December. This is the fourth consecutive month that sales tax has come in below expectations this fiscal year. December collections reflect November sales activity, so this corresponds to early holiday sales activity. December sales activity will be reflected in next month's *OUTLOOK*.

Product Taxes came in exactly on target in December. Miscellaneous Revenue was \$6.6 million higher than expected for the month of December. This was almost entirely due to the receipt of a second large estate tax payment (unrelated to October's \$21 million). The previous large estate tax payment is included in the updated revenue forecast, but this month's payment is not.